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LICENSEE BEWARE: THE SEVENTH CIRCUIT HOLDS THAT A PATENT LICENSE BY ANY OTHER NAME IS NOT THE SAME

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INTRODUCTION

Intellectual property licensing has grown significantly over the years with a global market estimated at more than \$100 billion.¹ In fact, “intellectual property assets account for 40% of the net value of all corporations in America.”² Notwithstanding the likelihood of more and more licensing transactions, a complex area of the law, patent licensing has not received much attention in legal journals and scholarly publications.³ As companies increasingly license and cross-

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¹ Kenneth L. Port, Jay Dratler, Jr., Faye M. Hammersley, Terence P. McElwee, Charles R. McManis & Barbara A. Wrigley, *LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE* xvii (2d ed. 2005).

² *Id.*

³ Rachel Clark Hughey, *Licensee by Estoppel*, 14 ALB. L.J. SCI. & TECH. 53, 54 (2003).

license technologies, issues arising about the nature and meaning of license agreements will likely be litigated,⁴ particularly because licensing agreements combine matters governed by state contract law and federal patent law.⁵

One area of patent licensing not discussed in depth is if a settlement for patent infringement may ever be considered a patent license agreement. The legal designation of a patent settlement as a patent license agreement will have implications for licensees with a “most favored licensee” status, a legal clause granting deferential treatment to a licensee in order to prevent a “competitive disadvantage resulting from more-favorable terms granted to another licensee.”⁶ Although some courts have decided this issue, they have decided differently what effect, if any, a patent settlement agreement has on an existing third party licensee with a “most favored licensee” clause in the license agreement.⁷

In *Waterloo Furniture Components Ltd. v. Haworth, Inc.*,⁸ a case of first impression⁹, the Seventh Circuit recently held that “[a] settlement for past infringement entered into *after* [a patent expires is not] a license.”¹⁰ Additionally, the Seventh Circuit acknowledged that federal appellate courts are divided on whether a settlement agreement

⁴ See *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1841 (2006).

⁵ See *Rhone-Poulenc Agro v. DeKalb Genetics Corp.*, 284 F.3d 1323, 1327-28 (Fed. Cir. 2002).

⁶ *Willemijn Houdstermaatschappij, BV v. Standard Microsystems Corp.*, 103 F.3d 9, 13 (2d Cir. 1997).

⁷ See *Ransburg Electro-Coating Corp. v. Spiller & Spiller*, 489 F.2d 974 (7th Cir. 1973) and *Studiengesellschaft Kohle v. Novamont Corp.*, 704 F.2d 48, (2d Cir. 1983) (each case finding that a patent settlement agreement may not be construed as a license); *Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.*, 482 F.2d 317 (6th Cir. 1973) and *Studiengesellschaft Kohle v. Hercules*, 105 F.3d 629 (Fed. Cir. 1997) (each ruling that a patent settlement agreement may be considered a license).

⁸ *Waterloo Furniture Components Ltd. v. Haworth, Inc.* (“*Waterloo II*”), 467 F.3d 641 (7th Cir. 2006).

⁹ For the first time, a court explicitly held that a settlement agreement is not a license in the context of an expired patent. Other courts, including the Seventh Circuit, have resolved the issue (albeit differently) in the context of an unexpired patent, see *supra* note 7.

¹⁰ *Waterloo II*, 467 F.3d at 647 (emphasis added).

entered into *before* a patent expires constitutes a license.¹¹ The linchpin in any of the regional appellate court's reasoning on the issue boils down to their correct or incorrect understanding of what essentially a patent license constitutes. For example, what ultimate effect does a patent license serve and is a license solely prospective in nature with no retroactive qualities?

Part I of this Note describes the relevant background of patent law, patent infringement, and patent licenses. Part II explains the circuit split among the Federal Regional Courts of Appeal, including the *Waterloo* decision. Part III of this Note contends that patent licenses have a unique nature given their purpose, including retroactive qualities, and that a settlement for past patent infringement, regardless of whether the patent has expired or not, may constitute a license, especially when the settlement implicates a "most favored licensee" clause.¹² Part IV of this Note explains the implications of the Seventh Circuit's *Waterloo* decision, especially because of the increasing importance of patent law and licensing agreements.

I. BACKGROUND

A. Patent Law

A patent grants the patentee¹³ a right to exclude others from making, using, selling, or offering to sell the patented invention within the United States, or importing the invention to the United States.¹⁴ Frequently the right to exclude is commonly misunderstood. Many

¹¹ *Id.* at 647 n.1.

¹² Although sometimes referred to as a "most favored nation" clause, *see, e.g., id.* at 643-48, to be more accurate, this Note uses only the phrase "most favored licensee".

¹³ The word patentee as used in this Note has the same meaning as its statutory definition in 35 U.S.C. § 100 (d) (2000) ("The word 'patentee' includes not only the patentee to whom the patent was issued but also the successors in title to the patentee").

¹⁴ 35 U.S.C. § 154(a) (2000).

people, including those in the legal profession,¹⁵ experts on patent law,¹⁶ and even judges,¹⁷ conflate the statutory right to exclude with a permissive and exclusive right of the patentee to actually make, use, or sell the patented invention. The resulting confusion is understandable, however. Over the years, Congress has changed the language of the statute specifying the rights granted a patentee,¹⁸ and it is common for people to assume that intellectual property ownership, like other types of property ownership, carries with it the three basic property rights: the right to use, the right to exclude, and the right to transfer.¹⁹

Patent laws have existed since 1790, but Congress enacted the current patent statute in 1952 under Title 35 of the United States Code.²⁰ Because a patent grants an exclusive right to the mental concept of the invention, “a patent protects no single physical embodiment of an invention as such; rather it controls the abstract information in the invention, as expressed in the patent’s claims.”²¹ In

¹⁵ For instance, the well-known and generally respected Black’s Law Dictionary defined the rights a patent grants as “the exclusive right to make, use or sell an invention for a specified period” in the 7th edition. BLACK’S LAW DICTIONARY 1147 (7th ed. 1999). However, the 8th edition defines the rights a patent grants as the “right to exclude.” BLACK’S LAW DICTIONARY 1156 (8th ed. 2004).

¹⁶ See, e.g., Arthur R. Miller & Michael H. Davis, INTELLECTUAL PROPERTY: PATENTS, TRADEMARKS AND COPYRIGHT IN A NUTSHELL 11 (1983) (describing the right a patent grants as “giving the patentee the exclusive right to make, use, or sell the invention”).

¹⁷ United States v. Univis Lens Co., 316 U.S. 241, 250 (1942) (“The full extent of the monopoly is the patentee’s “exclusive right to make, use, and vend the invention or discovery”).

¹⁸ See Part IIIA1, *infra*.

¹⁹ See Kenneth L. Port, Jay Dratler, Jr., Faye M. Hammersley, Terence P. McElwee, Charles R. McManis & Barbara A. Wrigley, LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE 5-6 (2d ed. 2005).

²⁰ Patent Act of 1952, ch. 950, § 1, 66 Stat. 792 (1952) (current version at 35 U.S.C. §§ 1-351 (2000)).

²¹ Kenneth L. Port, Jay Dratler, Jr., Faye M. Hammersley, Terence P. McElwee, Charles R. McManis & Barbara A. Wrigley, LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE 6 (2d ed. 2005) (citing *SRI Int’l v. Matsushita Elec. Corp.*, 775 F.2d 1107, 1121 (Fed. Cir. 1985) (*en banc*) (“If structural claims

exchange for disclosing the patented invention in sufficient detail within the patent application, the Government grants the patentee a twenty-year monopoly from the filing date of the patent to exercise any of the exclusionary rights.²²

The monopolistic rights give the patentee the ability to gain financially from the patent in various ways.²³ The patentee may sell the invention or rights to the invention at monopolistic prices to recoup any investment costs into research of the patented technology, or simply to realize a profit.²⁴ The patentee may assign or license all or some of the patent rights to another in exchange for any price or even no price at all.²⁵ A patentee may license use of the patented technology to another in exchange for royalties, rights to use another patented technology (cross-licensing agreements), or for just about anything that the parties agree upon.²⁶ In short, a patent grants rights similar in function to holders of tangible property²⁷—except the right to use.²⁸

were to be limited to devices operated precisely as a specification-described embodiment is operated, there would be no need for claims”).

²² 35 U.S.C. § 154(a) (2000).

²³ James Bessen & Michael J. Meurer, *Lessons For Patent Policy From Empirical Research on Patent Litigation*, 9 LEWIS & CLARK L. REV. 1, 9-10 (2005) (discussing three main sources of profits derived from patents: (1) excluding competitors, (2) forcing competitors to accept licenses, (3) strategically using patents to avoid litigation such as using patents to facilitate cross-licensing and opportunistic and anticompetitive patent suits based on weak or invalid patents).

²⁴ See, e.g., *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 36-37 (1923) (“[T]he government is not granting the common-law right to make, use and vend, but it is granting the incident of exclusive ownership of that common-law right, which [cannot] be enjoyed save with the common-law right” and that “a patent confers a monopoly”); *W.L. Gore & Assocs., Inc. v. Carlisle Corp.*, 529 F.2d 614 (3d Cir. 1976) (noting that a patent holder does not misuse a patent when the patentee demands an exorbitant royalty rate, essentially refusing to do business with the willful infringer).

²⁵ *Waterman v. Mackenzie*, 138 U.S. 252, 255-56 (1891).

²⁶ See Bessen & Meurer, *supra* note 23, at 9-10.

²⁷ 35 U.S.C. § 261 (2000).

²⁸ See 35 U.S.C. § 154(a) (2000); see also Part IIIA1, *infra*.

B. Patent Infringement

Patent infringement occurs when “[anyone] without authority makes, uses or sells any patented invention, within the United States during the term of the patent thereof.”²⁹ A patent term begins the day the patent issues and ends twenty years from the filing date of the patent application.³⁰ An entity may infringe a patent in three ways: direct infringement, contributory infringement, and induced infringement.³¹

The remedy for patent infringement may include injunctions,³² monetary damages (including treble damages),³³ and even attorney’s fees³⁴ in warranted cases. By statute, the court awards monetary damages adequate to compensate for infringing the patented invention.³⁵ A court may calculate adequate compensation based on the patentee’s lost profits due to the infringing activities of the infringer.³⁶

Furthermore, statutory law mandates a minimum amount of damages awarded to the patentee.³⁷ A court calculates the “floor” award for patent infringement damage based on “a reasonable royalty for the use made of the invention by the infringer.”³⁸ However, statutory law also places temporal limits on the amount of damages sought by the patentee.³⁹ 35 U.S.C. § 286 confines collecting damages to six years “prior to the filing” of an infringement claim.⁴⁰

²⁹ 35 U.S.C. § 271(a) (2000).

³⁰ 35 U.S.C. § 154(a)(1)-(2) (2000).

³¹ 35 U.S.C. § 271(b)-(c) (2000).

³² 35 U.S.C. § 283 (2000).

³³ 35 U.S.C. § 284 (2000).

³⁴ 35 U.S.C. § 285 (2000).

³⁵ 35 U.S.C. § 284 (2000).

³⁶ *Panduit Corp. v. Stahl Bros. Fibre Works*, 575 F.2d 1152, 1156 (6th Cir. 1978).

³⁷ 35 U.S.C. § 284 (2000).

³⁸ *Id.*

³⁹ 35 U.S.C. § 286 (2000).

⁴⁰ *Id.*

Lastly, the Court of Appeals for the Federal Circuit has exclusive appellate jurisdiction in cases involving issues of patent law.⁴¹ The Federal Circuit is a court of Federal Appeals especially created to hear, among other things, patent cases appealed from Federal District Courts and, as such, has no geographic limitations within the United States and its territories.⁴² Thus, substantive patent law comes substantially from the Federal Circuit or the Supreme Court.⁴³ Although after *Holmes Group Inc. v. Vornado Air Circulation Systems*,⁴⁴ other federal appellate courts may decide substantive patent law issues when a compulsory counterclaim pleads substantive patent law issues, even though the complaint does not assert any claim arising under the patent laws of the United States.⁴⁵

C. Licensing

The owner of a patent may grant licenses to others.⁴⁶ Since the patentee has the right to exclude others from making, using, offering for sale or selling, or importing the invention,⁴⁷ no one else may engage in any of these acts without the patentee's permission without risking liability for infringement.⁴⁸ While federal statutory and case law governs substantive patent law, state laws govern interpretation of license agreements due to their contractual nature.⁴⁹ However, where

⁴¹ 28 U.S.C. § 1295(a)(1) (2000) ("The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction . . . of an appeal from a final decision of a district court of the United States . . . based, in whole or in part, on section 1338 of this title"); *see also* 28 U.S.C. § 1338(a) (2000) ("The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents").

⁴² 28 U.S.C. § 1295(a) (2000).

⁴³ 28 U.S.C. § 1254 (2000); *see also* 28 U.S.C. § 1338 (2000).

⁴⁴ 535 U.S. 826 (2002).

⁴⁵ *Holmes Group Inc. v. Vornado Air Circulation Sys.*, 535 U.S. 826, 830 (2002).

⁴⁶ 35 U.S.C. § 261 (2000).

⁴⁷ 35 U.S.C. § 154(a) (2000).

⁴⁸ 35 U.S.C. § 271(a) (2000).

⁴⁹ *See Rhone-Poulenc Agro, S.A., v. DeKalb Genetics Corp.*, 284 F.3d 1323, 1327-28 (Fed. Cir. 2002).

state contract law yields inconsistent results with federal patent policy, federal patent law governs.⁵⁰

Patent license agreements may be exclusive, partially exclusive, or nonexclusive.⁵¹ A license “[i]n its simplest form . . . means only leave to do a thing which the licensor otherwise would have a right to prevent.”⁵² Thus, a patent license agreement is in essence nothing more than a promise by the licensor not to sue the licensee,⁵³ though an exclusive license agreement may also grant the licensee the right to sue other infringers.⁵⁴

A patentee may limit the license agreement by geography, by duration, or by invention scope.⁵⁵ A license may grant unrestricted or limited use in a particular field.⁵⁶ For example, a patentee may limit a license agreement for a patented veterinary drug to only dogs in California for two years but not other animals in other states. Generally, the license agreement may include whatever provisions the

⁵⁰ *In re CFLC, Inc.*, 89 F.3d 673, 677 (9th Cir. 1996) (quoting *Lear v. Adkins*, 395 U.S. 653, 673 (1969)) (“The construction of a patent license is generally a matter of state contract law, except where state law ‘would be inconsistent with the aims of federal patent policy’”).

⁵¹ *Drackett Chem. Co. v. Chamberlain Co.*, 63 F.2d 853, 855 (6th Cir. 1933).

⁵² *W. Elec. Co., Inc. v. Pacent Reproducer Corp.* 42 F.2d 116, 118 (2d Cir. 1930).

⁵³ *Jim Arnold Corp. v. Hydrotech Sys.*, 109 F.3d 1567, 1577 (Fed. Cir. 1997).

⁵⁴ *See Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1053 (Fed. Cir. 2001) (Lourie, J. additional remarks) (“A patent license, if it is non-exclusive, is an agreement to forbear from suit. If the license is exclusive, it may be tantamount to an assignment of the patent”); *see also Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345 (Fed. Cir. 2001) (“An exclusive licensee receives more substantial rights in a patent than a nonexclusive licensee, but receives fewer rights than an assignee of all substantial patent rights”).

⁵⁵ *See Spindelfabrik Suessen-Schurr Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed. Cir. 1987) (“In any event, patent license agreements can be written to convey different scopes of promises not to sue, e.g., a promise not to sue under a specific patent or, more broadly, a promise not to sue under any patent the licensor now has or may acquire in the future”); *see also Intellectual Prop. Dev.*, 248 F.3d at 1345 (“[A]n exclusive licensee could receive the exclusive right to practice an invention within a given limited territory”).

⁵⁶ *Gen. Talking Pictures Corp. v. W. Elec. Co.*, 305 U.S. 124, 181 (1938).

parties agree upon, such as the payment of royalties, duration of the agreement, exclusive or non-exclusive terms, and permitted uses—for example, selling but not making.⁵⁷

A license is a contract,⁵⁸ and may be written or oral,⁵⁹ express⁶⁰ or implied.⁶¹ The terms and conditions of the license must be consistent with the scope of the patent.⁶² No particular form of license is required.⁶³ A license may also explicitly include a release from past infringement,⁶⁴ though the agreement itself releases the infringer from any rights of the patentee to exclude the infringer from using the patented invention.⁶⁵

License agreements may also include a “Most Favored Licensee” (MFL) or “Most Favored Nation” clause. A MFL clause protects the licensee from “a competitive disadvantage resulting from more-favorable terms granted to another licensee.”⁶⁶ MFL status assures the licensee that it will not pay more in royalties than another licensee, and usually that the licensor will inform the licensee of any other

⁵⁷ *Id.* at 127 (quoting *United States v. Gen. Elec. Co.*, 272 U.S. 476, 489 (1926)) (“[T]he patentee may grant a license ‘upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure’”).

⁵⁸ *Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1369-70 (Fed. Cir. 2004).

⁵⁹ *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 241 (1927).

⁶⁰ Michael J. Swope, Comment, *Recent Developments in Patent Law: Implied License – An Emerging Threat to Contributory Infringement Protection*, 68 TEMP. L. REV. 281 (1995) (“An express license operates by written or oral contract between the patent owner and the purchaser of the product”).

⁶¹ Hughey, *supra* note 3, at 55-56.

⁶² *Id.*

⁶³ *De Forest Radio Tel. Co.*, 273 U.S. at 241.

⁶⁴ *United States v. Line Material Co.*, 333 U.S. 287, 297 (1948) (“By accepting [the license agreements,] they secured release from claims for past infringement through a provision to that effect in the license”).

⁶⁵ *Id.* at 343 (“[The] nonexclusive license agreement . . . served only to release the licensee from the right of the patent holder to exclude him from making, using or selling a patented article”); see *Standard Oil Co. v. United States*, 283 U.S. 163, 168 (1931).

⁶⁶ *Willemijn Houdstermaatschappij, BV v. Standard Microsystems Corp.*, 103 F.3d 9, 13 (2d Cir. 1997).

licensees and the terms of their agreements.⁶⁷ Essentially, MFL clauses suggest that licensed competitors should be treated equally, so long as they bear equivalent obligations to the licensor/patentee.

II. THE CIRCUIT SPLIT AND *WATERLOO*

Four federal courts of appeal have decided the issue of whether a settlement agreement for patent infringement may constitute a license for an unexpired patent: the Second, Sixth, Seventh, and Federal Circuits.⁶⁸ The Second and Seventh circuits decided the issue differently than the Sixth and Federal circuits, and thus their decisions differ in the effect a patent settlement agreement has on an existing third party licensee with a “most favored licensee” clause in the license agreement.⁶⁹

The Seventh Circuit in the *Waterloo* decision, however, is the only appellate court to decide the issue in the context of an expired patent. A review of the reasoning justifying the holdings of the other federal regional appellate courts in the context of an unexpired patent will help define the split among the circuits and illuminate how that split influenced the Seventh Circuit’s *Waterloo* decision. First, this Note will explain the circuit split, beginning with the Second and Seventh circuits, followed by the Sixth and Federal Circuits. Finally, this Note will explain the relevant details and reasoning of the Seventh Circuit’s *Waterloo* decision.

⁶⁷ See, e.g., *Studiengesellschaft Kohle, m.b.H. v. Hercules, Inc.*, 105 F.3d 629, 633 (Fed. Cir. 1997) (noting that the licensor's obligation was to notify the licensee of the terms and conditions of any other license agreements, not simply “more favorable” license agreements in the licensors opinion).

⁶⁸ *Studiengesellschaft Kohle v. Novamont Corp.*, 704 F.2d 48, (2d. Cir. 1983); *Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.*, 482 F.2d 317 (6th Cir. 1973); *Ransburg Electro-Coating Corp. v. Spiller & Spiller*, 489 F.2d 974 (7th Cir. 1973); *Studiengesellschaft Kohle v. Hercules*, 105 F.3d 629 (Fed. Cir. 1997).

⁶⁹ See *Ransburg*, 489 F.2d 974 and *Novamont*, 704 F.2d 48 (each case finding that a patent settlement agreement may not be construed as a license); *Shatterproof Glass*, 482 F.2d 317 and *Hercules*, 105 F.3d 629 (each ruling that a patent settlement agreement may be considered a license).

A. Other Federal Courts of Appeal Decisions

1. According to the Second and Seventh Circuits, a settlement agreement is not a license before a patent expires.

Two federal appellate circuits have held that a settlement agreement entered into before a patent expires is not a license agreement: the Second Circuit in *Studiengesellschaft Kohle v. Novamont Corp.*⁷⁰ and the Seventh Circuit in *Ransburg Electro-Coating Corp. v. Spiller & Spiller*.⁷¹ Because this Note focuses on the *Waterloo* decision, only a cursory overview of the reasoning and any pertinent facts in the cases will be given, beginning with the Second Circuit decision in *Novamont Corp.*

In *Novamont Corp.*, the court held that a settlement agreement for past infringement did not implicate the MFL status of a licensee.⁷² The court considered the “treatment of an earlier licensee, who was entitled to a MFL clause and a competitor who took a license later, after a period of infringing activity.”⁷³ The licensor granted a license to Novamont in 1967 to produce certain polymers of propylene.⁷⁴ The license included a “Most Favored Licensee” (MFL) clause requiring the licensor to “promptly furnish Novamont with the full text of any licenses granted under the [patent], if . . . considered in their entirety, the licenses were more favorable than those in the licensee agreement [with Novamont].”⁷⁵

Later, the licensor granted a third-party competitor a license but did not promptly inform Novamont about the new agreement.⁷⁶ When the licensor finally did inform Novamont of the agreement, the licensor did not include in the notification a particular clause within

⁷⁰ 704 F.2d 48 (2d Cir. 1983).

⁷¹ 489 F.2d 974 (7th Cir. 1973).

⁷² *Novamont*, 704 F.2d at 52.

⁷³ *Id.*

⁷⁴ *Id.* at 50.

⁷⁵ *Id.*

⁷⁶ *Id.* at 51-52

the agreement.⁷⁷ The clause in the agreement released the third-party competitor from past infringement pending the outcome of another infringement case and permitted the third-party competitor to credit any money the licensor recovered from the third-party competitor for past infringement against royalties the third-party competitor owed the licensor.⁷⁸

In other words, the third-party competitor would pay the licensor royalties for past infringement that would count towards the future royalties the third-party competitor owed the licensor under the license agreement, a two-birds-for-one-stone-type agreement. After Novamont learned of the undisclosed clause, they requested the same treatment, believing that the clause permitted the third-party competitor to pay a reduced royalty because the royalty covered both past and future infringing use of the patented technology.⁷⁹

The Second Circuit disagreed that the clause settling past infringement implicated Novamont's MFL status for two reasons.⁸⁰ First, Novamont could not have benefited from the second license agreement because Novamont had not been an infringer at the time the third-party competitor and the licensor reached the second agreement.⁸¹

Second, granting Novamont the benefit of the second license agreement terms would require the licensor to insist upon a payment for past infringement from the third-party competitor equal to the "royalty terms governing [Novamont] during the same period, or [the licensor] must make a refund to [Novamont]."⁸² Ultimately, the court decided that MFL clauses do not require such a high "degree of equivalency" and courts "have declined to interpret the clauses with that breadth."⁸³ The court declined to discuss in any detail the prospective or retroactive qualities of a patent license agreement,

⁷⁷ *Id.* at 51-52

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *Id.* at 52.

⁸¹ *Id.*

⁸² *Id.*

⁸³ *Id.*

briefly acknowledging that the Sixth Circuit's earlier reasoning in *Shatterproof Glass* did not persuade them.⁸⁴

Next, this Note will review the Seventh Circuit's *Ransburg* decision, holding that a patent license agreement is prospective in nature and not equivalent to a release for past infringement.⁸⁵ In *Ransburg*, an accused infringer settled a patent infringement suit by making monthly installments to compensate the patentee.⁸⁶ Later, in a separate infringement action, a court held the patent invalid.⁸⁷ The infringer subsequently ceased making payments under the terms of the settlement agreement.⁸⁸ The patentee sued the accused infringer to recover the remaining amount owed under the settlement agreement.⁸⁹

The Seventh Circuit rejected the infringer's arguments that the settlement agreement was a retroactive licensing agreement and that because the patent was now invalid, the infringer no longer had to pay the patentee as obligated by the earlier settlement agreement.⁹⁰

To require the infringer to continue payment of the settlement agreement would be contrary to the Supreme Court's policy of "ridding the public of invalid patents thereby dedicating ideas to the common good," or so the infringer argued.⁹¹ The court disagreed with the infringer, reasoning that a patent license has only a prospective quality, negating any possible retroactive effects of a patent license.⁹² Thus, a patent license is not equivalent to a release for past wrongdoing (a settlement agreement).⁹³ Moreover, the court listed the public policy reasons for continuing to enforce a settlement agreement

⁸⁴ *Id.* at 52 n.5.

⁸⁵ *Ransburg Electro-Coating Corp. v. Spiller & Spiller*, 489 F.2d 974, 977-78 (7th Cir. 1973).

⁸⁶ *Id.* at 976.

⁸⁷ *Id.*

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ *Id.* at 977.

⁹¹ *Id.*

⁹² *Id.* at 977-78.

⁹³ *Id.*

for infringement of a patent, even though the patent was subsequently found invalid.⁹⁴

2. According to the Sixth and Federal Circuits, a settlement agreement may be a license before a patent expires.

In contrast to *Novamont* and *Ransburg*, two other federal appellate circuits have held that a settlement agreement entered into before a patent expires is a license agreement: the Sixth Circuit in *Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.*⁹⁵ and the Federal Circuit in *Studiengesellschaft Kohle v. Hercules*.⁹⁶ Again, only a cursory overview of the reasoning and any pertinent facts in the cases will be given, beginning with the Sixth Circuit decision in *Shatterproof Glass*.

The *Shatterproof Glass* case, in which the Sixth circuit held that a patent settlement agreement may constitute a license for purposes of a MFL clause,⁹⁷ entails a few unique facts. Shatterproof Glass, a second licensee, entered into a licensing agreement with a licensor in 1955.⁹⁸ The licensing agreement included a MFL clause that covered not only future licenses but also already existing licenses with other third parties.⁹⁹

The first licensee had originally entered a licensing agreement in 1931.¹⁰⁰ Later, the first licensee entered into another agreement in 1961 for a release of infringement prior to 1961 of certain patents and a paid-up license under another patent in exchange for lump sum payments.¹⁰¹ The license agreement also included a royalty rate for future use of other patents.¹⁰²

The licensor failed to notify Shatterproof Glass of the more favorable terms found in the 1931 and 1961 agreements, in violation

⁹⁴ *Id.* at 977-78.

⁹⁵ 482 F.2d 317 (6th 1973).

⁹⁶ 105 F.3d 629 (Fed. Cir. 1997).

⁹⁷ *Shatterproof Glass*, 482 F.2d at 321.

⁹⁸ *Id.* at 318.

⁹⁹ *Id.* at 318 n.1.

¹⁰⁰ *Id.* at 319.

¹⁰¹ *Id.*

¹⁰² *Id.*

of the MFL clause.¹⁰³ Shatterproof Glass sought to recover royalties already paid in excess of the more favorable rates the first licensee had paid.¹⁰⁴

Shatterproof Glass argued that the “nature of the [agreements]” and not their label is controlling, and “that properly construed, the document is a retroactive license.”¹⁰⁵ The Sixth Circuit agreed, reasoning that “a release can, in certain circumstances, have the effect of and be construed as a license.”¹⁰⁶ Additionally the court recognized that a patent license is “a mere waiver of the right to sue by the patentee.”¹⁰⁷ Moreover, the agreement that released the first licensee from any claims of infringement “was in effect a settlement by payment of just compensation for previous use of the patent . . . [otherwise] evasion of a ‘favored [licensee]’ clause [would be] possible.”¹⁰⁸

Turning now to the *Studiengesellschaft Kohle, m.b.H., v. Hercules, Inc.* case,¹⁰⁹ the Federal Circuit held that a MFL licensee was entitled to the same terms as a settlement for past infringement by a third-party competitor.¹¹⁰ In *Hercules*, a licensor, failed to notify a MFL licensee, Hercules, of another license agreement with a third-party competitor, in violation of the MFL clause.¹¹¹ Meanwhile, Hercules had stopped paying royalties during a six-year period, triggering the licensor to commence a patent infringement lawsuit against Hercules.¹¹²

After Hercules discovered the third-party competitor license agreement with more favorable royalty rates and a release for past infringement, Hercules requested a retroactive license with royalty rates similar to the third-party competitor license agreement, reaching

¹⁰³ *Id.* at 319-20.

¹⁰⁴ *Id.*

¹⁰⁵ *Id.* at 320.

¹⁰⁶ *Id.* (citing *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 241-42 (1927)).

¹⁰⁷ *Shatterproof Glass*, 482 F.2d at 320.

¹⁰⁸ *Id.* at 321.

¹⁰⁹ 105 F.3d 629 (Fed. Cir. 1997).

¹¹⁰ *Id.* at 634.

¹¹¹ *Id.* at 631-32.

¹¹² *Id.* at 632.

back to the date any allegedly infringing activities began, “thereby insulating itself from any infringement claim.”¹¹³

The Federal Circuit observed that “absolving six years of infringement via a retroactive license [was] troubling” because it was uncertain if Hercules would have accepted a similar agreement had the licensor offered Hercules the same terms as the third-party competitor license agreement within the timeframe required by the MFL clause.¹¹⁴ Nevertheless, because the licensor breached the MFL clause by not notifying Hercules of the third-party competitor license agreement within the required timeframe, the uncertainty was the licensor’s to bear.¹¹⁵

The Federal Circuit ruled that “Hercules [was] entitled to the terms of the [third-party competitor] license effective May 1980, when the [third-party competitor] license became effective.”¹¹⁶ Notably, the Federal Circuit did not dwell on the prospective-retroactive potential dualism of a patent license as did the Seventh¹¹⁷ and Sixth¹¹⁸ circuits. Instead, the court apparently accepted the possibility of a retroactive license as a concept requiring little to no justification, almost as if the concept itself was self-evident.¹¹⁹ The uncertain actions of the parties caused the Federal Circuit some hesitancy with its decision but not the concept of a retroactive license itself.¹²⁰

The Sixth and Seventh Circuit courts extensively discussed their rationale for why they decided a settlement agreement or release from past infringement may or may not be considered a patent license, emphasizing the retroactive, or alternatively, the sole prospective

¹¹³ *Id.* at 634.

¹¹⁴ *Id.*

¹¹⁵ *Id.*

¹¹⁶ *Id.*

¹¹⁷ *Ransburg Electro-Coating Corp. v. Spiller & Spiller*, 489 F.2d 974, 977 (7th Cir. 1973).

¹¹⁸ *Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.*, 482 F.2d 317, 320 (6th Cir. 1973).

¹¹⁹ *See id.*

¹²⁰ *See id.*

quality of patent licenses.¹²¹ The Seventh Circuit in *Waterloo* was no different.

B. The Waterloo Case

The Seventh Circuit is the only court to address whether settlement agreements for past infringement may constitute a patent license even though the patent has expired. In *Waterloo*, the Seventh Circuit held that “[a] settlement for past infringement entered into *after* [a patent expires is not] a license.”¹²² Additionally, the Seventh Circuit acknowledged that federal appellate courts are divided on whether a settlement agreement entered into *before* a patent expires constitutes a license.¹²³ As will be discussed in greater detail below,¹²⁴ the linchpin in Seventh Circuit’s reasoning boils down to their correct or incorrect understanding of what essentially a patent license constitutes.

Waterloo manufactures keyboard support devices.¹²⁵ Haworth owned Patent No. 4,616,798 (the ‘798 patent) for a computer keyboard adjustable support, which attaches to the underside of a desk.¹²⁶ In December 1992, Waterloo and Haworth entered into a licensing agreement to resolve an infringement claim Haworth brought against Waterloo.¹²⁷ Although the parties executed the agreement in December 1992, it retroactively covered Waterloo’s past infringement that occurred before December 1992.¹²⁸

The agreement included a MFL clause wherein Haworth promised to automatically offer Waterloo a more favorable royalty rate if

¹²¹ See, e.g., *Ransburg Electro-Coating Corp.*, 489 F.2d at 977; *Shatterproof Glass Corp.*, 482 F.2d 317, 320 (6th 1973).

¹²² *Waterloo Furniture Components Ltd. v. Haworth, Inc.* (“*Waterloo I*”), 467 F.3d 641, 647 (7th Cir. 2006) (emphasis added).

¹²³ *Id.* at 647 n.1.

¹²⁴ See Part III, *infra*.

¹²⁵ *Id.* at 643.

¹²⁶ *Id.* at 644.

¹²⁷ *Id.*

¹²⁸ *Waterloo Furniture Components v. Haworth, Inc.* (“*Waterloo I*”), 402 F. Supp. 2d 950, 952 (N.D. Ill 2005), *aff’d*, *Waterloo II*, 467 F.3d 641 (7th Cir. 2006).

Haworth licensed the '798 patent to a third party at a more favorable rate.¹²⁹ The license agreement also included the express intention of the parties, namely that "Waterloo is treated no less favorably than direct competitors of Waterloo in regard to licensing of the '798 patent."¹³⁰ Moreover, Haworth promised to provide written notice to Waterloo of any subsequent third party license agreement and its terms within thirty days following the license agreement's execution.¹³¹ Michigan law governed the agreement.¹³²

In 1997, a third party, SoftView, filed a declaratory judgment action against Haworth, arguing that SoftView was not infringing the '798 patent.¹³³ Haworth filed a counterclaim in June 1998 that SoftView had infringed the '798 patent.¹³⁴ On December 9, 2003, after five and half years of litigation, the parties reached an agreement in principle to settle the case.¹³⁵ A formal settlement was executed on March 24, 2004.¹³⁶ Meanwhile, the '798 patent expired on October 14, 2003.¹³⁷

Waterloo learned about the settlement agreement and requested a copy from Haworth.¹³⁸ Haworth responded that its agreement with SoftView was confidential.¹³⁹ Waterloo filed a breach of contract claim in the Northern District of Illinois because it suspected that its licensor, Haworth, had entered into a settlement agreement that offered an infringing competitor more favorable royalty terms than the terms of Waterloo's own license.¹⁴⁰

¹²⁹ *Waterloo II*, 467 F.3d at 644.

¹³⁰ *Id.*

¹³¹ *Id.*

¹³² *Id.*

¹³³ *Id.*

¹³⁴ *Id.*

¹³⁵ *Id.*

¹³⁶ *Id.*

¹³⁷ *Id.* at 643.

¹³⁸ *Id.* at 644.

¹³⁹ *Id.*

¹⁴⁰ *Waterloo Furniture Components v. Haworth, Inc.* ("Waterloo I"), 402 F. Supp. 2d 950, 951 (N.D. Ill 2005).

Haworth moved for summary judgment, and Waterloo served discovery requests, including a request to see the SoftView/Haworth settlement agreement.¹⁴¹ The district court halted discovery *sua sponte* and granted Haworth's summary judgment motion after allowing the parties to submit briefs on the summary judgment motion.¹⁴²

The Seventh Circuit affirmed the district court's judgment, holding that "a settlement for past infringement entered into after [a] patent's expiration [does not] constitute a license."¹⁴³ The court reasoned that a license is only prospective in nature because a patent license grants a licensee a future right to make or use the patented invention.¹⁴⁴

In affirming the district court's judgment, the Seventh Circuit went beyond what was necessary to adjudicate the case. The district court merely found that the license agreement between Waterloo and Haworth expired, and as a result, neither party had any obligations to each other at the time Haworth and SoftView entered into a settlement agreement.¹⁴⁵

The Seventh Circuit agreed with the district court's interpretation of the Haworth/Waterloo agreement, at which point the adjudication could have ended.¹⁴⁶ But then the court went on to hold that a settlement agreement may not be considered a license agreement after the patent expired (even if the Haworth/Waterloo agreement was still in force at the time Haworth and SoftView executed their settlement agreement) thus still negating Waterloo's breach of contract claims.¹⁴⁷

¹⁴¹ *Waterloo II*, 467 F.3d at 644.

¹⁴² *Waterloo I*, 402 F. Supp. 2d at 953. Although the district court held that the licensing agreement terminated with the patent's expiration, *Waterloo I*, 402 F. Supp. 2d at 953, to which the Seventh Circuit agreed, *Waterloo II*, 467 F.3d at 645-46, whether the contract's terms were correctly interpreted by the Federal Courts is beyond the scope of this Note.

¹⁴³ *Waterloo II*, 467 F.3d at 647.

¹⁴⁴ *Id.*

¹⁴⁵ *Waterloo I*, 402 F. Supp. 2d at 953.

¹⁴⁶ *Waterloo II*, 467 F.3d at 645-47.

¹⁴⁷ *Id.*

III. THE SEVENTH CIRCUIT'S MISSTEPS

The Seventh Circuit made several missteps in the *Waterloo* case. First, it made incorrect assumptions about the nature of a patent license. The Seventh Circuit incorrectly defined what constitutes a patent law license, oddly relying in part on a 1951 edition of Black's Law Dictionary.¹⁴⁸ Moreover, because the court began with the wrong definition of a patent license, the court then incorrectly deemed that licenses may only be prospective in nature.¹⁴⁹ The court then bolstered these assumptions by implying that an expired patent retains no value to the patentee, and thus a patent license may only be prospective in nature.¹⁵⁰ In reality, the first misstep combines a series of flawed missteps.

Second, the court arguably ignored the Supreme Court's analysis of the legal effects of a patent license and should have been more deferential to the Federal Circuit,¹⁵¹ the court Congress especially created to determine patent issues and bring uniformity to patent laws.¹⁵²

Third and finally, not only did the Seventh Circuit make wrong assumptions in its reasoning, but also it ignored the actual negotiation process and result of both a licensing agreement and a settlement agreement for patent infringement. Instead, the Seventh Circuit focused on the labels given to a document ending disputes negotiated under threat of litigation or actual litigation and not its substance.

A. Incorrect Assumptions Made About the Nature of Licenses

The first misstep actually involves a series of flawed missteps. The Seventh Circuit made three incorrect primary assumptions about

¹⁴⁸ *Id.*

¹⁴⁹ *Id.*

¹⁵⁰ *Id.* at 641.

¹⁵¹ See Part IIIB, *infra*.

¹⁵² *Holmes Group, Inc. v. Vornado Air Circulation Sys.*, 535 U.S. 826, 838 (2002) (noting that the Federal Circuit "was created, in part, to promote uniformity in the development [patent] law").

the nature of a patent license and patents in general. The court began with a wrong definition of a patent license,¹⁵³ and then the court relied on that definition in deciding that patent licenses have only prospective qualities.¹⁵⁴ Finally, the court bolstered the prospective quality of a patent license with the mistaken implication that an expired patent no longer has value.¹⁵⁵ Before we detail the series of missteps and why they are flawed, however, this Note will detail the Seventh Circuit's reasoning in *Waterloo*.

Broken down, the Seventh Circuit's reasoning in *Waterloo* follows these steps. First, a patent license grants a licensee a permissive right to use the patented invention.¹⁵⁶ Because a patent license grants the licensee a permissive, future right to use the patented invention, a patent license can only be prospective in nature.¹⁵⁷ Furthermore, because a patent license is prospective in nature, a patentee may not license a patent after its expiration; indeed "there is nothing left for the patent holder to license."¹⁵⁸ Thus, a settlement entered into after a patent's expiration is not a license.¹⁵⁹

Implied in this reasoning is that a settlement may be both prospective and retrospective in nature, i.e. a settlement agreement may release the infringer from past tortious acts in addition to any future ones that may occur. The Seventh Circuit also reinforced its decision by implying that an expired patent no longer has value or may be sued upon.¹⁶⁰

The mistakes made in the Seventh Circuit's reasoning flow from their beginning assumptions, namely that a license grants permissive rights and is only prospective in nature.¹⁶¹ By starting on the wrong foot, the Seventh Circuit ended up in the wrong place.

¹⁵³ *Waterloo II*, 467 F.3d at 647.

¹⁵⁴ *Id.*

¹⁵⁵ *Id.* at 647-48.

¹⁵⁶ *Id.* at 647.

¹⁵⁷ *Id.*

¹⁵⁸ *Id.* at 647-48.

¹⁵⁹ *Id.* at 647.

¹⁶⁰ *Id.*

¹⁶¹ *Id.*

1. A patent license is in essence a promise not to sue the licensee, not a grant to the licensee of rights to use the patented invention.

The Seventh Circuit started off on the wrong foot. First, the Seventh Circuit mistakenly understood a license as a “written authority granted by the owner of a patent to another person empowering the latter to make or use the patented article for a limited period or in a limited territory.”¹⁶² Surprisingly, and somewhat oddly, the Seventh Circuit relied on the fourth edition of Black’s Law Dictionary, published in 1951, as its quoted authority on what a patent license constitutes.¹⁶³

Why seek a definition of a patent license from an out-of-date, albeit generally respected, legal dictionary instead of precedent from the Federal Circuit? Even better, why not consult Supreme Court precedent on the meaning of a license in the context of patent law? As will be shown, both types of precedential and persuasive authority were amply available for the Seventh Circuit’s choosing.¹⁶⁴

Before reviewing various Federal Circuit definitions of a patent license, a short review of the rights conferred by a patent is in order. Only after a correct understanding of the property rights a patent grants a patentee can a proper understanding of the rights a patent license grants a licensee be reached.

By statute, a patent grants the patentee “the right to exclude others from making, using, selling, or offering to sell” the patented invention within the United States.¹⁶⁵ However, the exact contours of this right were not always unmistakably comprehended because of ambiguities in the statute language prior to 1952.¹⁶⁶ In the 1946 Patent Act for example,¹⁶⁷ Congress established that a patent granted the patentee

¹⁶² *Id.*

¹⁶³ *Id.*

¹⁶⁴ See Part IIIB, *infra*.

¹⁶⁵ 35 U.S.C. § 154(a)(1) (2000).

¹⁶⁶ P.J. Federico, *Commentary on the New Patent Act*, 35 U.S.C.A. § 1 (West 1954), reprinted in 75 J. PATENT TRADEMARK OFFICE SOCIETY 161, 201 (1993) (“The exact rights conferred by a patent were difficult to understand and explain under the [pre-1952] language”).

¹⁶⁷ Patent Act of 1946, ch. 726, 60 Stat. 778 (1946).

“the exclusive right to make, use, and vend the invention . . . throughout the United States.”¹⁶⁸ This older version of the Patent Act may help explain the erroneous definition of a patent law license found in the 1951 fourth edition of Black’s Law Dictionary¹⁶⁹ and subsequently relied upon by the Seventh Circuit.¹⁷⁰ As will be discussed in greater detail below, the phrase “exclusive right to [use]” created an ambiguity in the understanding of the rights conferred by a patent.

After 1951, Congress enacted the current Patent Act in 1952, revising the statutory language describing the rights a patent confers.¹⁷¹ The current statute utilizes the same relevant language from the 1952 Patent Act with some minor additions.¹⁷² At present, a patent grants the patentee “the right to *exclude others from* making, using, offering for sale, or selling the invention.”¹⁷³ In relevant part, Congress omitted the word “exclusive” from the 1942 Patent Act and added the words “exclude others from” in the 1952 Patent Act,¹⁷⁴ clarifying the tenor of rights a patent grants a patentee to conform with existing law as interpreted by the Supreme Court.¹⁷⁵

Although the 1952 Patent Act revised the language describing the rights conferred by a patent to render the meaning clearer, the Supreme Court has concluded on numerous occasions that a patent

¹⁶⁸ 35 U.S.C. § 40 (1946).

¹⁶⁹ BLACK’S LAW DICTIONARY 1068 (4th ed. 1951).

¹⁷⁰ *Waterloo Furniture Components Ltd. v. Haworth, Inc.* (“*Waterloo II*”), 467 F.3d 641, 647 (7th Cir. 2006).

¹⁷¹ 35 U.S.C. § 154 (1952) (“Every patent shall . . . grant to the patentee . . . the right to exclude others from making, using, or selling the invention throughout the United States”).

¹⁷² 35 U.S.C. § 154(a)(1) (2000) (adding the phrase “offering for sale”).

¹⁷³ 35 U.S.C. § 154(a)(1) (2000) (emphasis added).

¹⁷⁴ *Id.* Congress also added the phrase “offering for sale” sometime after the 1952 Patent Act.

¹⁷⁵ S. REP. NO. 82-1979 (1952), as reprinted in 1952 U.S.C.C.A.N. 2394, 2417 (“The wording of the granting clause is changed to ‘the right to exclude others from making, using, or selling’, following language used by the Supreme Court, to render the meaning clearer”) (emphasis added).

confers the right to exclude others from using¹⁷⁶ the invention.¹⁷⁷ At other times, the Court has declared that a patent grants the patentee the right to use the invention.¹⁷⁸ The perhaps seemingly inconsistent views of the Court are explained below.

In *Continental Paper Bag Co. v. Eastern Paper Bag Co.*,¹⁷⁹ the Court extensively discussed the rights granted a patentee and the theories supporting those rights.¹⁸⁰ The Court endorsed the view that a common law understanding of property *already* granted the patentee a right to use his invention,¹⁸¹ and that the only right Congress granted

¹⁷⁶ For the reader's sake, the terms "use" or "using," in the context of rights granted a patentee here and throughout this Note, include the statutory rights of making, using, selling and offering to sell when not explicitly listed.

¹⁷⁷ *Bloomer v. McQuewan*, 55 U.S. 539, 549 (1853) ("The franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all [the patentee] obtains by the patent"); *United Shoe Mach. Corp. v. United States*, 258 U.S. 451, 463 (1922) (citing *Bloomer*, 55 U.S. 539) ("From an early day it has been held by this court that the franchise secured by a patent consists only in the right to exclude others from making, using, or vending the thing patented without the permission of the patentee"); *see also* *United States v. Line Material Co.*, 333 U.S. 287, 316 (1948) (Douglas, J. concurring) (quoting U.S. CONST. art. I, § 8, Cl. 8) ("It is to be noted first that all that is secured to inventors is 'the exclusive right' to their inventions"); *Kewanee Oil Co. v. Bicron Corp. et al.*, 416 U.S. 470, 480 (1974) (Patent laws promote progress of science and useful arts "by offering a right of exclusion for a limited period as an incentive to inventors").

¹⁷⁸ *United States v. Univis Lens Co.*, 316 U.S. 241, 250 (1942) ("The full extent of the monopoly is the patentee's 'exclusive right to make, use, and vend the invention or discovery'").

¹⁷⁹ 210 U.S. 405 (1908).

¹⁸⁰ *Id.* at 423-25.

¹⁸¹ *Id.* at 424-25 ("[The patentee] receives nothing from the law that he did not have before"); *accord* *Bauer & Cie v. O'Donnell*, 229 U.S. 1, 10 (1913) ("The right to make, use and sell an invented article is not derived from the patent law. This right existed before and without the passage of the law and was always the right of an inventor"); *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 34-35 (1923) ("[This] Court held that the Government did not confer on the patentee the right himself to make, use or vend his own invention, that such right was a right under the common law not arising under the federal patent laws and not within the grant of power to Congress to enact such laws").

by statute was the *exclusive right* to use the invention,¹⁸² which the Court interpreted as the *right to exclude* others from using the invention.¹⁸³

In summary, Congress never conferred by patent the statutory right to use the invention although the language used to describe the rights conferred by patent may have been misunderstood as conferring a “right to use” in the 1942 Patent Act and all previous versions of the Patent Act.¹⁸⁴ Rather, Congress only intended the statutory language to

¹⁸² *Cont’l Paper Bag Co.*, 210 U.S. at 423-25 (“Congress has . . . guaranteed [the patentee] an exclusive right to [his invention] for a limited time”); *accord Bauer*, 229 U.S. at 10 (“The [Patent Act] secured to the inventor the exclusive right to make, use and vend the thing patented”); *see Crown Die*, 261 U.S. at 34-35.

¹⁸³ *Cont’l Paper Bag Co.*, 210 U.S. at 423-25 (“[T]he only effect of the patent is to restrain others from manufacturing and using that which he has invented”); *accord Bauer*, 229 U.S. at 10 (The Patent Act consequently, “secured to the inventor the exclusive right . . . to prevent others from [using the patented invention] without the consent of the patentee”); *Crown Die*, 261 U.S. at 34-35 (“[This] Court further held that in its essence all that the Government conferred by the patent was the right to exclude others from making, using or vending his invention”).

¹⁸⁴ The previous Patent Acts used some form of the phrase “right to use the invention,” albeit with different wording over the years. The Supreme Court summarized the historical changes in the language used to describe the rights conferred by patent in the relevant statutes for the Patent Acts of 1790, 1793, 1736, and 1870 as follows:

The protection given to inventors and authors in the United States originated in the Constitution, § 8 of Art. I of which authorizes the Congress “to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” This protection, so far as inventors are concerned, has been conferred by an act of Congress passed April 10, 1790, and subsequent acts and amendments. The act of 1790, 1 Stat. 109, c. 7, granted “the sole and exclusive right and liberty of making, constructing, using and vending to others to be used, the said invention or discovery.” In 1793 (Feb. 21, 1793, 1 Stat. 318, c. 11) the word “full” was substituted for the word “sole,” and in 1836 (July 4, 1836, 5 Stat. 117, § 5, c. 357) the word “constructing” was omitted. This legislation culminated in § 4884 of the Revised Statutes, the part with which we are dealing being practically identical with the act of July 8, 1870, 16 Stat. 198, § 22, c. 230. It provides that every patent shall contain “a grant to the patentee, his heirs and assigns,

grant the property right to *exclude others* from using the invention.¹⁸⁵ In other words, even though the statutory language in the Patent Acts before 1952 used the phrase “exclusive right to use” in describing the rights conferred by patent, Supreme Court cases interpreted that phrase to mean that a patent only grants the patentee the right to exclude others from using the patented invention.¹⁸⁶ To be sure, all forms of intellectual property share the essential right to exclude others from using, without permission, the copyright, patent, trademark, or trade secret.¹⁸⁷

Despite the statutory definition of what rights a patent grants a patentee, it is still common to perceive a patent’s grant as a *de facto* monopoly for the patentee to make, use, and sell the invention, and with it the ability to license those same rights to a licensee.¹⁸⁸ Common experience with tangible personal or real property may make it difficult for many people to conceive of a right to exclude without simultaneously having the right to use tangible property.¹⁸⁹ However, because intellectual property is intangible, the concept of having only the right to exclude and not the right to use becomes troublesome for

for the term of seventeen years, of the exclusive right to make, use, and vend the invention or discovery.

Bauer, 229 U.S. at 9-10.

¹⁸⁵ See *Richardson v. Suzuki*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (“The right to exclude recognized in a patent is but the essence of the concept of property”).

¹⁸⁶ See, e.g., *Special Equip. Co. v. Coe*, 324 U.S. 370, 378 (1945) (“The patent grant is not of a right to the patentee to use the invention, for that he already possesses. It is a grant of the right to exclude others from using it. As the statute, R. S. § 4884, provides, the grant is of the “exclusive right to make, use, and vend” the invention”).

¹⁸⁷ Kenneth L. Port, Jay Dratler, Jr., Faye M. Hammersley, Terence P. McElwee, Charles R. McManis & Barbara A. Wrigley, *LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE* 6 (2d ed. 2005) (“The direct impact of intellectual property is entirely negative: it prevents those who do not own it from doing things they otherwise might lawfully and productively do, normally without invading any ones’ tangible property”).

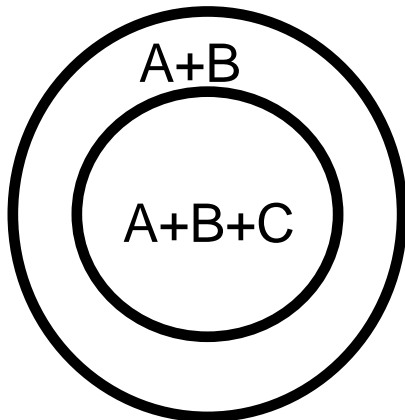
¹⁸⁸ See Part IA, *supra*.

¹⁸⁹ Kenneth L. Port, Jay Dratler, Jr., Faye M. Hammersley, Terence P. McElwee, Charles R. McManis & Barbara A. Wrigley, *LICENSING INTELLECTUAL PROPERTY IN THE INFORMATION AGE* 5-6 (2d ed. 2005).

many. An example of why this distinction is important will help illuminate the concept, and explain how the distinction affects licensing agreements.

Suppose inventor Jon holds a patent for a widget with elements A+B+C and inventor Kate holds a patent for a widget with elements A+B. Despite Jon's patent, Kate may still exclude Jon from making, using, or selling his widget with elements A+B+C, because it would infringe Kate's patent for a widget with elements A+B. Kate's patent claim would read on Jon's widget.¹⁹⁰ Inventor Kate owns a "dominating" patent.¹⁹¹

The following drawing helps to visualize this situation where Jon's patent for a widget with elements A+B+C is the inner circle, and Kate's patent for a widget with elements A+B is the outer circle encompassing Jon's inner circle. The drawing represents how Kate's "dominate" patent prevents Jon from freely using his invention; Kate has the right to exclude Jon from using any widget that includes elements A+B. Even though the law grants Jon the right to exclude others from using his invention, he himself does not have the right to use his invention without Kate's consent.



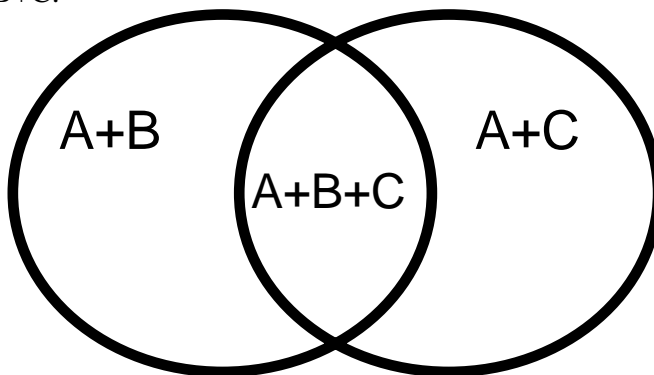
¹⁹⁰ "Read on" is a term of art in patent litigation. See 8 Donald S. Chisum, CHISUM ON PATENTS Glossary (2001) (Explaining meaning of the term "reads on" as "a claim 'reads on' or covers products or processes that contain all of the elements and limitations of the claim").

¹⁹¹ See BLACK'S LAW DICTIONARY 1156 (8th ed. 2004) on blocking patent, dominating patent, and fencing patent.

A similar situation, often referred to as a “blocking patent,”¹⁹² would arise if Jon instead held a patent for a widget with elements A+C, yet Jon makes, uses, and sells a widget with elements A+B+C. In that case, both Jon and Kate could prevent each other from making, using, or selling a widget with elements A+B+C. This is because Jon’s patent claim including elements A+B and Kate’s patent claim including elements A+C would read on the widget with elements A+B+C, each patent “blocking” the other’s use of the widget.¹⁹³

The following drawing helps to visualize this situation, where Jon’s patent for a widget with elements A+C is the right circle, and Kate’s patent for a widget with elements A+B is the left circle. The overlapping area of the two circles represents the overlapping patent rights that Kate and Jon share. The drawing represents how Kate and Jon’s patents “block” each other from freely using their inventions without the other’s consent.

Kate has the right to exclude Jon from using any widget that includes elements A+B and Jon has the right to exclude Kate from using any widget that includes elements A+C. Even though the law grants Jon and Kate the right to exclude others from using their respective inventions, neither Jon nor Kate has the right to use their invention without the other’s consent. Cross-licensing the patents would permit both Jon and Kate to make, use, and sell the widget A+B+C.¹⁹⁴



¹⁹² *Id.*

¹⁹³ *Id.*

¹⁹⁴ *Id.*

The previous hypotheticals are not mere mental gymnastics to illuminate theories of patent law, but they occur in actual court cases, and affect their outcomes.¹⁹⁵ Why is the distinction between the right to use and the right to exclude important? It is important because understanding what rights a patent grants a patentee shapes what rights a licensee receives from the patentee, and thus what a patent license constitutes.

Notwithstanding the actual language of a license agreement, a patent license is not a grant of rights to the licensee to use the invention; rather, a patent license is an agreement that the licensor will not sue the licensee, so long as neither party breaches the agreement.¹⁹⁶ According to the Supreme Court, a patent license “amounts to no more than ‘a mere waiver of the right to sue.’”¹⁹⁷ The federal courts of appeal have also declared that a patent license is nothing more than a promise not to sue.¹⁹⁸ In fact, a patentee has no other obligations to the licensee,¹⁹⁹ even to the point that a patentee does not have to sue other infringers of the licensed patent.²⁰⁰ Neither

¹⁹⁵ *United States v. Line Material Co.*, 333 U.S. 287, 297 (1948) (“These patents in separate hands produced a deadlock. Lemmon by his basic patent ‘blocked’ Schultz’s improvement. Cross-licenses furnished appellees a solution”).

¹⁹⁶ *U.S. Philips Corp. v. ITC*, 424 F.3d 1179, 1189 (Fed. Cir. 2005).

¹⁹⁷ *Gen. Talking Pictures v. W. Elec. Co.*, 304 U.S. 175, 181 (1938) (quoting *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 242 (1927)). It should be noted that an exclusive licensee receives more in addition to the promise not to sue, namely the ability to sue others for infringement in some circumstances. *See Part IC, supra*.

¹⁹⁸ *See W. Elec. Co. v. Patent Reproducer Corp.*, 42 F.2d 116, 118 (2d Cir. 1930) (noting that “a license grants to the licensee merely a privilege that protects him from a claim of infringement by the owner of the patent”); *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1552 (Fed. Cir. 1995) (*en banc*) (noting that a licensee with a bare license “has received only the patentee’s promise that [the licensee] will not be sued for infringement”); *U.S. Philips Corp.*, 424 F.3d at 1189 (noting that “a nonexclusive patent license is simply a promise not to sue for infringement”).

¹⁹⁹ Again, this is for a “bare licensee”, which is a minimum received by all licensees, though exclusive licensees receive more rights. *See Part IC, supra*.

²⁰⁰ *W. Elec. Co.*, 42 F.2d at 118 (noting that a patentee may freely enter licensing agreements with others or even tolerate infringers, and in neither case violate the rights of the patent licensee, though such actions may cause the licensee

does the licensee have any other obligations to the patentee outside the terms of the agreement.²⁰¹

Why have courts declared that a patent license is nothing more than a promise not to sue or a mere waiver of a right to sue? Recall that the patentee does not have the right to use the patented invention; rather the patentee has the right to *exclude others* from making, using, selling, or offering to sell the invention.²⁰² Therefore, if the patentee does not have the right to use the invention, then how can the patentee grant the licensee a right to use the invention when the patentee does not have that right themselves?

The Federal Circuit acknowledged this absurdity. Based on the exclusionary rights granted a patentee, the Federal Circuit reasoned as follows about the actual nature of a patent license:

Even if [a patent license is] couched in terms of “licensee is given the right to make, use, or sell X,” the agreement cannot convey that absolute right because not even the patentee of X is given that right. His right is merely one to exclude others from making, using or selling X, 35 U.S.C. § 154. Indeed, the patentee of X and his licensee, when making, using, or selling X, can be subject to suit under other patents.²⁰³

Because a patentee cannot grant a right to that which it does not have, the Federal Circuit held that “[a]s a threshold matter, a patent license

“pecuniary loss,” but “no legal injury”). This of course assumes that the terms of the license do not require or prevent such conduct by the patentee.

²⁰¹ *U.S. Philips Corp.*, 424 F.3d at 1189 (noting that granting a license “does not obligate the licensee to do anything; it simply provides the licensee with a guarantee that it will not be sued for engaging in conduct that would infringe the patent in question”).

²⁰² 35 U.S.C. § 154(a)(1) (2000) (emphasis added).

²⁰³ *Spindelfabrik Suessen-Schurr Stahlecker & Grill GmbH v. Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed. Cir. 1987).

agreement is in essence nothing more than a promise by the licensor not to sue the licensee” for patent infringement.²⁰⁴

With this understanding, the Federal Circuit recently declared that a license is equivalent to a covenant not to sue.²⁰⁵ Even some commentators note the implications of viewing a patent license agreement as a covenant not to sue on other areas of the law,²⁰⁶ such as the assignment of patent licenses in a bankruptcy proceeding.²⁰⁷

Perhaps the language of the pre-1952 statutes describing the rights granted a patentee explains the incorrect definition of a patent license found in the 1951 fourth edition of Black’s Law Dictionary.²⁰⁸ Another potential reason for the inaccurate definition may be that Congress had yet to centralize all appeals of patent cases into a single court, the Court of Appeals for the Federal Circuit. Congress first created the

²⁰⁴ *Id.*; accord *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1552 (Fed. Cir. 1995) (“If the party has not received an [exclusive license] i.e., the right to exclude others from making, using, or selling the patented invention, the party has a ‘bare license,’ and has received only the patentee’s promise that that party will not be sued for infringement”).

²⁰⁵ *Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1367 (Fed. Cir. 2004) (“[A] license is, in essence, a licensor’s covenant not to sue the licensee”); see also John C. Phillips, Note, *Sui Generis Intellectual Property Protection for Computer Software*, 60 GEO. WASH. L. REV. 997, 1041 n.212. (1992) (“A ‘license’ in the patent law context may be defined as a covenant not to sue for infringement in exchange for a royalty”).

²⁰⁶ Michelle Morgan Harner, Carl E. Black, and Eric R. Goodman, *Debtors Beware: The Expanding Universe of Non-Assumable/Non-Assignable Contracts in Bankruptcy*, 3 AM. BANKR. INST. L. REV. 187, 211 (2005) (“[L]icense agreements are covenants not to sue-i.e., the licensor agrees not to sue the licensee for patent infringement if the licensee uses the patented invention and performs (such as by paying royalties) in accordance with the terms of the license agreement”).

²⁰⁷ *Id.* at 212.

²⁰⁸ BLACK’S LAW DICTIONARY 1068 (4th ed. 1951).

Court of Appeals for the Federal Circuit in 1982²⁰⁹ for the purpose of unifying patent law²¹⁰ among other things.²¹¹

Nevertheless, none of these possible reasons for an erroneous definition of a patent license excuses the Seventh Circuit for relying on the 1951 definition found in Black's Law Dictionary when the Supreme Court and the Federal Circuit have explicated a correct definition of a patent license.

2. A license may be retroactive.

In deciding the *Waterloo* case, the Seventh Circuit also relied on the notion that a license has only prospective qualities.²¹² To reinforce that notion, the Seventh Circuit incorrectly defined a patent license as a grant to the licensee of the right to use the patented invention, which can only be forward looking.²¹³ However, patent licenses may have both prospective *and* retrospective qualities, in part because a patent license is in essence a promise not to sue.²¹⁴ Other types of intellectual property also recognize retroactive licensing agreements.²¹⁵

²⁰⁹ The Federal Court Improvements Act of 1982 (FCIA) established the Court of Appeals for the Federal Circuit (CAFC), Pub. L. No. 97-164, 96 Stat. 25 (relevant provisions codified as amended in scattered sections of 28 U.S.C.).

²¹⁰ *Holmes Group, Inc. v. Vornado Air Circulation Sys.*, 535 U.S. 826, 838 (2002) (noting that the Federal Circuit “was created, in part, to promote uniformity in the development [patent] law”).

²¹¹ See Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 2-4 (1989) (noting administrative efficiency and reduced forum shopping as some other reasons).

²¹² *Waterloo Furniture Components Ltd. v. Haworth, Inc.*, 467 F.3d 641, 647 (7th Cir. 2006).

²¹³ *Id.*

²¹⁴ See Part IIIA1, *supra*.

²¹⁵ See, e.g., Dov S. Greenbaum, Comment, THE DATABASE DEBATE: IN SUPPORT OF AN INEQUITABLE SOLUTION, 13 ALB. L.J. SCI. & TECH. 431, 515 n.160 (2003) (noting that Texaco agreed to pay a seven-figure settlement and retroactive licensing fee to the CCC for a copyright infringement claim).

The Federal Circuit has acknowledged on various occasions both implicitly²¹⁶ and explicitly²¹⁷ that a patent license may be retroactive. Additionally, the Sixth Circuit explicitly held that “a release [from past infringement] can, in certain circumstances, have the effect of and be construed as a license.”²¹⁸ Various district courts have also recognized the retroactive nature of patent licenses in the form of a settlement for past infringement.²¹⁹

Moreover, most patent infringement cases settle²²⁰ with the parties entering some form of licensing agreement.²²¹ Settlement in a general

²¹⁶ See *Intel Corp. v. ULSI Sys. Tech.*, 995 F.2d 1566, 1567 (Fed. Cir. 1993) (noting that Intel and HP entered into a cross-licensing agreement granting each other “an ‘irrevocable, retroactive, nonexclusive, world-wide, royalty-free license’ under all patents and patent applications covered by the agreement”); *Enzo APA & Son v. Geapag A.G.*, 134 F.3d 1090, 1092 (Fed. Cir. 1998) (“By its terms, the Spidem-Geapag License is retroactive, effective as of December 4, 1992, thus predating the first filed action”); *Ethicon, Inc. v. United States Surgical Corp.*, 135 F.3d 1456, 1467 (Fed. Cir. 1998) (recognizing that a patent license may cover past infringement, although absent an agreement between co-owners, a license granted by one co-owner and not the others will only operate prospectively).

²¹⁷ *Studiengesellschaft Kohle, m.b.H. v. Hercules, Inc.*, 105 F.3d 629, 634 (Fed. Cir. 1997) (ruling that a MFL licensee was entitled to a retroactive license).

²¹⁸ *Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.*, 482 F.2d 317, 320 (6th Cir. 1973).

²¹⁹ See *Burlington Indus. v. Solutia, Inc.*, 256 F. Supp. 2d 433, 437 (D. N.C. 2003) (“After reviewing the License Agreement, Settlement Agreement, and Consent Decree, it is apparent that Plaintiff and Rossville entered into a patent license agreement [for past use of the patented technology]”); *Jacobson v. Cox Paving Co.*, No. 89-1786 1991 U.S. Dist. LEXIS 17787, at *19 (D. Ariz. 1991) (“Mr. Jacobson purchased the McDonald patents in 1986 and retroactively licensed the infringing activities of Arizona Refining”); see also *Willemijn Houdstermaatschappij, BV v. Standard Microsystems Corp.*, 925 F. Supp. 193, 196 (S.D.N.Y. 1996) (“A licensor’s grant of immunity from suit in settlement of a dispute under a prior license agreement is ‘the equivalent of a license’ and may trigger another licensee’s most-favored-licensee clause”), *vacated on other grounds*, 103 F.3d 9 (2d Cir. 1997).

²²⁰ Jay P. Kesan & Gwendolyn G. Ball, *How Are Patent Cases Resolved? An Empirical Examination of the Adjudication and Settlement of Patent Disputes*, 84 WASH. U. L. REV. 237, 259 (2006) (finding that about eighty percent of patent cases settle).

²²¹ *Id.* at 275.

sense may occur before actual litigation begins or anytime thereafter.²²² Because the parties settle usually after infringement has allegedly occurred, thus precipitating the lawsuit or the threat of litigation, licensing agreements typically have a retroactive effective date, and thus embrace both prospective and retrospective qualities.²²³

To illustrate this point further, consider the first variation of the previous “Kate and Jon” hypothetical where Jon makes a widget having elements A+B+C, which infringes Kate’s patent for a widget having elements A+B. Kate has yet to file a lawsuit, but both agree that Jon has been infringing Kate’s patent for the past 3 years and that her patent would withstand a validity challenge. Because of the threat of litigation, Jon and Kate, enter into a licensing agreement a week before Kate’s patent expires although negotiations began just under a year ago.

Jon agrees to pay a lump-sum royalty to Kate within two months of the execution date of the agreement. The lump-sum royalty covers Jon’s past infringing acts as well as his future use of the invention for the remaining week left on the life of the patent. Although the licensing agreement contains mostly retrospective features and only marginally prospective ones, it is nevertheless a license: Kate has promised not to sue Jon for past and future infringement in exchange for a lump-sum royalty payment. Courts consider lump-sum royalties

²²² *Id.* at 256-57; see also Carl Shapiro, *Antitrust Limits to Patent Settlements*, 34 RAND J. ECON. 391, 392 (2003) (“I do not distinguish between settlements that take place after patent litigation commences and those that take place before the filing of a patent lawsuit. Both types of settlements take place in the shadow of an ultimate court ruling on patent validity and/or infringement”).

²²³ In fact, the licensing agreement between Haworth and Waterloo was executed in December 1992 but had an effective date of October 1, 1992. *Waterloo Furniture Components v. Haworth, Inc.*, 402 F. Supp. 2d 950, 952 (N.D. Ill. 2005). Thus, Waterloo paid Haworth a certain monetary amount to cover past infringing acts that occurred prior to the execution of the licensing agreement and any future ones up to the expiration date of the patent, a retroactive and prospective license. See, e.g., *Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.*, 482 F.2d 317, 318 n.2 (1973) (Shatterproof began negotiations in 1952, which concluded in 1955 with a license agreement having an effective date of Jan. 1, 1954); *id.* at 319 (In 1962, Libbey-Owens-Ford executed a license agreement with Ford having an effective date of Jan. 1, 1961).

the same as continuing royalty payments in that they fulfill the licensee's obligation to pay the patentee for the license.²²⁴

Consider the legal effects, if any, on the outcome when the facts of the hypothetical are altered. In this variation, the negotiation process took longer and an agreement was reached a week after the patent expired, but all the other terms were the same. Now the licensing agreement contains only retrospective features. Despite the patent's expiration, the agreement is still a patent license: Kate has promised not to sue Jon for past infringement in exchange for a lump-sum royalty fee. A patentee's authority to grant a retroactive patent license is what enables the settlement of a patent infringement suit and is indistinguishable from a settlement.²²⁵

3. Expired patents retain some value to the patentee.

The Seventh Circuit also incorrectly implied that once a patent expires, the patentee can no longer enforce his patent rights based on the expired patent, bolstering its claim that a license has only prospective qualities.²²⁶ While the patentee's power to exclude others no longer exists after a patent's expiration,²²⁷ "a patent does have

²²⁴ *Hazeltine Corp. v. Zenith Radio Corp.*, 100 F.2d 10, 16 (7th Cir. 1938) ("‘Royalty,’ when used in connection with a license under a patent, means the compensation paid by the licensee to the licensor for the use of the licensor's patented invention"); *see Studiengesellschaft Kohle, m.b.H. v. Hercules, Inc.*, 105 F.3d 629, 633 (Fed. Cir. 1997) ("The ordinary meaning of the term ‘paying licensee’ is one who gives money for a license . . . we see no distinction between one who makes an up-front, lump-sum payment and one who makes continuing royalty payments. Indeed, such a distinction would be doubly doubtful because a ‘paid-up’ license presumably includes potential future royalty payments discounted to their net present value").

²²⁵ *See De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 241-42, (1927) (settlement and license have the same legal effect); *Shatterproof Glass Corp. v. Libbey-Owens-Ford Co.*, 482 F.2d 317, 320 (6th Cir. 1973) (settlement may be deemed equivalent to a retroactive license).

²²⁶ *Waterloo Furniture Components Ltd. v. Haworth, Inc.*, 467 F. 3d 641, 647-48 (7th Cir. 2006).

²²⁷ 35 U.S.C § 154(a)(2) (2006).

value beyond its expiration date.”²²⁸ By statute, a patentee may still sue an infringer for past infringement committed during the life of the patent.²²⁹

A patentee may still recover standard remedies when suing for past infringement of an expired patent. For example, a patentee whose right to exclude expired with the patent may yet be able to obtain post-patent-expiration injunctions.²³⁰ A patentee may want to seek an injunction after a patent has expired for two basic reasons. First, a patentee may request the injunctions to destroy infringing items made during the patent’s lifetime or “articles made from an infringing machine or process.”²³¹ Another reason for a post-expiration injunction is to enjoin the infringer “from making the patented item for the amount of time it would take for the infringer to recreate the invention after the patent expired.”²³²

Injunctions are not the only remedy available to a patentee after a patent expires. A patentee may recover money damages as well.²³³ Although sometimes misunderstood as a statute of limitations,²³⁴ § 286 caps the amount of damages a patentee may recover from an infringer for any infringement committed more than six years prior to filing the lawsuit.²³⁵ In other words, “one starts from the filing of a [patent-infringement lawsuit] and counts backward [six years] to

²²⁸ *In re Morgan*, 990 F.2d 1230, 1232 (Fed. Cir. 1993).

²²⁹ 35 U.S.C. § 286 (2000); *accord In re Morgan*, 990 F.2d at 1232. (tersely noting that “a patent may be sued on after it expires”).

²³⁰ *See generally* Christopher A. Cotropia, Note, *Post-Expiration Patent Injunctions*, 7 TEX. INTELL. PROP. L.J. 105 (1998).

²³¹ *Id.* at 106-07.

²³² *Id.* (This is because if the infringer had respected the patentee’s rights, they would not be able to recreate the invention until after the patent expires. In other words, by infringing the patent, the infringer received an unlawful head start on recreating the invention for lawful use after patent expiration. A post-expiration injunction would deprive the infringer of that head start).

²³³ *See* 35 U.S.C. § 286 (2000).

²³⁴ *Standard Oil Co. v. Nippon Shokubai Kagaku Kogyo Co.*, 754 F.2d 345, 348 (Fed. Cir. 1985).

²³⁵ 35 U.S.C. § 286 (2000) (“Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action”).

determine the date before which [the patentee may no longer recover damages].”²³⁶

A patentee may therefore still derive value from an expired patent either by commencing a law suit or seeking a licensing agreement with the alleged infringer up to six years after the patent expired.²³⁷

Remember, this is not an unlawful extension of the patent term because the patentee may not recover damages for use of the patented invention after the patent expires.²³⁸ Rather, if a patentee first discovers after the patent expired that an infringer committed infringing acts before the patent’s expiration, the patentee may recover those damages.

Logically then, a patentee can resolve any patent dispute with an infringer after the patent has expired by either entering a licensing or settlement agreement covering the past infringing acts. The infringer’s ability to enter into retroactive agreements confirms the notion that settlement agreements may be considered a licensing agreement, even if the patent has expired, and especially if a MFL clause is implicated.

Thus, the Seventh Circuit erroneously concluded that a patent license has only prospective qualities. In reality, the legal effect of a license, a promise not to sue, may cover both past and future infringing acts in exchange for an agreed upon consideration.

B. Ignoring De Forest for the Trees and Disregarding the Federal Circuit

In the second misstep, the court arguably ignored the Supreme Court’s analysis of the legal effects of a patent license and should have been more deferential to the Federal Circuit, the court Congress especially created to determine patent issues and bring uniformity to patent laws.²³⁹

²³⁶ *Standard Oil Co.*, 754 F.2d at 348.

²³⁷ *See, e.g., In re Morgan*, 990 F.2d 1230, 1232 (Fed. Cir. 1993).

²³⁸ *See, e.g., 35 U.S.C. § 154(a)(2)* (2000).

²³⁹ *Holmes Group, Inc. v. Vornado Air Circulation Sys.*, 535 U.S. 826, 838 (2002) (noting that the Federal Circuit “was created, in part, to promote uniformity in the development [patent] law”).

The Seventh Circuit should have looked to the Supreme Court and the Federal Circuit for the correct definition of a patent license. The Supreme Court has held on multiple occasions that a license in the context of patent law “amounts to no more than ‘a mere waiver of the right to sue.’”²⁴⁰ In *De Forest Radio Telephone Co. v United States*,²⁴¹ the pre-eminent Supreme Court case explaining the meaning of a patent license, the American Telephone Company released the United States and “all manufactures acting under its orders” from any infringement claims stemming from the United States’ use and manufacture of a patented invention for use in World War I.²⁴²

The De Forest Radio Telephone Company, the holder of patents for the invention, later sued the United States for infringement.²⁴³ However, De Forest granted certain rights in the patent to Western Electric Company, who subsequently conveyed the rights to the American Telephone Company.²⁴⁴ The agreement included the right of De Forest and Western Electric to sue others for any of the patents “within the fields in which each respectively possessed rights,”²⁴⁵ and to license to the United States use of the patented technology.²⁴⁶ A license would serve as a complete defense to claims of patent infringement by either company.²⁴⁷

In holding that American Telephone Company’s actions created an implied license with the United States Government,²⁴⁸ the Court also explicated the nature of a patent license. The Court noted, “No formal granting of a license is necessary in order to give it effect.”²⁴⁹

²⁴⁰ Gen. Talking Pictures v. West. Elec. Co., 304 U.S. 175, 181 (1938) (quoting *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 242 (1927)).

²⁴¹ 273 U.S. 236 (1927).

²⁴² *Id.* at 239-40.

²⁴³ *Id.* at 237.

²⁴⁴ *Id.* at 238.

²⁴⁵ *Id.*

²⁴⁶ *Id.* at 240.

²⁴⁷ *Id.*

²⁴⁸ *Id.* at 242.

²⁴⁹ *Id.* at 241.

Moreover, the court approvingly quoted an earlier Supreme Court case that declared a license is “a mere waiver of the right to sue.”²⁵⁰

The Federal Circuit stands with the Supreme Court in its case law, when explicating the nature of a patent license.²⁵¹ Although Federal Circuit decisions do not bind the Seventh Circuit,²⁵² even in matters of patent law,²⁵³ the Seventh Circuit should give deference to the Federal Circuit in matters implicating patent law,²⁵⁴ similar to the manner in which the Federal Circuit defers to its sister appellate courts when deciding matters not implicating patent law, such as procedural issues and substantive issues not involving patent law.²⁵⁵

One commentator argued for deference to the Federal Circuit while recognizing that the Federal Circuit’s decisions do not bind regional appellate and state courts, in this manner:

The most obvious law for the regional appellate courts and state courts to apply to patent issues is that of the Federal Circuit. However, federal appellate courts are

²⁵⁰ *Id.* at 242 (quoting *Henry v. Dick Co.* 224 U.S. 1, 24 (1912)).

²⁵¹ *See generally* Part IIIA1, *supra*.

²⁵² *Kohler Co. v. Moen Inc.*, 12 F.3d 632, 644 (7th Cir. 1993) (Cudahy, J. dissenting).

²⁵³ *See Christianson v. Colt Indus. Operating Corp.*, 870 F.2d 1292, 1299 (7th Cir. 1989).

²⁵⁴ *But see* Larry D. Thompson, Jr., *Adrift on a Sea of Uncertainty: Preserving Uniformity in Patent Law Post-Vornado Through Deference to the Federal Circuit*, 92 GEO. L.J. 523, 526 (“Generally, however, federal courts of appeals follow what can be called the ‘rule of no deference,’ which allows courts to treat the decisions of coordinate federal courts as persuasive, but prohibits deference to them”).

²⁵⁵ One commentator summarized the Federal Circuit’s deference as follows: [The Federal Circuit] applies regional circuit law to procedural issues that are not themselves substantive patent law issues so long as they do not (1) pertain to patent law, (2) bear an essential relationship to matters committed to [the court’s] exclusive control by statute, or (3) clearly implicate the jurisprudential responsibilities of [the court] in a field within its exclusive jurisdiction.

Sean M. McEldowney, Comment, *The “Essential Relationship” Spectrum: A Framework For Addressing Choice of Procedural Law In The Federal Circuit*, 153 U. PA. L. REV. 1639, 1668 (2000).

not bound by Federal Circuit law and do not have sovereignty-based reasons for following it, as they do with state law. Therefore, the basis for their deference to Federal Circuit law should come from three places. First, it generally is more efficient for regional circuits to follow the Federal Circuit so the appellate courts do not need to develop new law. Second, the courts should respect the congressional purpose of creating a uniform body of patent law. Finally and most tenuously, the regional circuits should honor Federal Circuit law to promote comity among the circuit courts, which the Federal Circuit has, at least in principle, supported. Perhaps such respect for the Federal Circuit law will generate a reciprocal respect in the Federal Circuit for regional circuit law, transforming its purported adherence to regional circuit law on nonpatent issues into actual adherence.²⁵⁶

However, what about issues before the courts that involve matters of both patent law and other areas of law, or issues that merely implicate patent law? For instance, some decisions that may have a “substantial effect on patent law” involve antitrust, contracts, copyrights, federal business law tort claims such as trade dress infringement, patent licensing disputes, and state law business disparagement claims.²⁵⁷ In those cases that implicate patent law or involve matters of patent law, other regional appellate and state courts should defer to the Federal Circuit in order to promote the congressional intent of a uniform body of patent law.²⁵⁸

²⁵⁶ Ravi V. Sitwala, Note, *In Defense of Holmes v. Vornado: Addressing The Unwarranted Criticism*, 79 N.Y.U. L. REV. 452, 477 (2004).

²⁵⁷ Scott Cole, Note and Comment, *The Rise And Fall Of Patent Law Uniformity And The Need For Congressional Response*, 81 CHI.-KENT. L. REV. 713, 725-26 (2006).

²⁵⁸ *Holmes Group, Inc. v. Vornado Air Circulation Sys.*, 535 U.S. 826, 838 (2002) (noting that the Federal Circuit “was created, in part, to promote uniformity in the development [patent] law”); *see Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 645 (1999) (“The need for uniformity in

Other regional appellate courts have understood the need for a uniform body of patent law, and have deferred to the Federal Circuit precedent when deciding issues implicating patent law. For example, the Ninth Circuit, in a bankruptcy proceeding, upheld the district court's decision, preventing the assignability of a patent license by the debtor.²⁵⁹ In so doing, the Ninth Circuit looked to federal patent law, as promulgated by the Federal Circuit court, to govern its decision, even though federal patent law may have conflicted with California state law.²⁶⁰

The court justified their conclusion by emphasizing the importance of federal patent policy and a uniform rule of "modern federal decision" regarding the non-assignability of nonexclusive patent licenses.²⁶¹ Additionally, the Ninth Circuit cited Seventh Circuit precedent that also held that federal patent law governed the assignability of a patent license,²⁶² which means the Seventh Circuit not only understands this principle but even applied it and incorporated it into its own case law. Notably, the Ninth Circuit also looked to the Supreme Court's *De Forest* decision for a definition of a patent license,²⁶³ which definition the Federal Circuit case law supports.²⁶⁴

In order to follow the Congressional directive for a uniform body of patent law, the Seventh Circuit should have followed the Ninth Circuit's example and looked to the Supreme Court and the Federal Circuit to inform its definition of a patent license, a key part of their

the construction of patent law is undoubtedly important"); Cole, *supra* note 257, at 725-26.

²⁵⁹ In re CFLC, Inc., 89 F.3d 673, 680 (9th Cir. 1996)

²⁶⁰ *Id.* at 677-79.

²⁶¹ *Id.* at 679-80.

²⁶² *Id.* at 677-78 (citing Inc. v. Kelley Co., 465 F.2d 1303, 1306 (7th Cir. 1972) ("The question of assignability of a patent license is a specific policy of federal patent law dealing with federal patent law. Therefore, we hold federal law applies to the question of the assignability of the patent license in question")).

²⁶³ *Id.* at 677 (noting that a patent license is a "mere waiver of the right to sue" the licensee for infringement") (quoting *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 242 (1927)).

²⁶⁴ See Part IIIA1, *supra*.

reasoning to hold that a settlement agreement may never be a patent license.²⁶⁵

C. The calculations for a payment of royalties in a license agreement and a settlement agreement are substantially the same.

Third and finally, the Seventh Circuit ignored the actual negotiation process and legal effects of both a licensing agreement and a settlement agreement for patent infringement. Instead, the Seventh Circuit focused on the label of an agreement ending disputes negotiated under threat of litigation or actual litigation and not its substance.²⁶⁶

The Seventh Circuit overlooked the fact that a calculation of royalty rates²⁶⁷ for a licensing agreement and a settlement agreement mimic each other, thus bolstering the notion that settlement agreements perform substantially the same function as licensing agreements—in other words, a means for the parties to enter some form of a covenant not to sue in exchange for an agreed upon consideration.²⁶⁸

²⁶⁵ *Waterloo Furniture Components Ltd. v. Haworth, Inc.*, 467 F. 3d 641, 647 (7th Cir. 2006).

²⁶⁶ *Id.* at 647-48.

²⁶⁷ Royalty as used here means any compensation paid to the licensor for a license, *See Hazeltine Corp. v. Zenith Radio Corp.*, 100 F.2d 10, 16.(7th Cir. 1938) (“‘Royalty’ when used in connection with a license under a patent, means the compensation paid by the licensee to the licensor for the use of the licensor’s patented invention”).

²⁶⁸ *See, e.g., Metabolite Labs., Inc. v. Lab. Corp. of Am. Holdings*, 370 F.3d 1354, 1367 (Fed. Cir. 2004) (“[A] license is, in essence, a licensor’s covenant not to sue the licensee”); *see also* John C. Phillips, Note, *Sui Generis Intellectual Property Protection for Computer Software*, 60 GEO. WASH. L. REV. 997, 1041 n.212 (1992) (“A ‘license’ in the patent law context may be defined as a covenant not to sue for infringement in exchange for a royalty”). For a settlement as a covenant not to sue, *see, e.g., Microchip Tech. Inc. v. Chamberlain Group*, 441 F.3d 936, 942 (Fed. Cir. 2006) (noting that the parties’ settlement agreement was a covenant not to sue).

Because damages for patent infringement are calculated using lost profits or a reasonable royalty rate, and sometimes both,²⁶⁹ settlement amounts will, in large part, be based on either lost profits or a reasonable royalty rate.²⁷⁰ Thus, a settlement based on the reasonable royalty rate mimics the negotiation process the parties would have had if they instead entered into a licensing agreement.²⁷¹

When a court determines damages for past patent infringement employing a reasonable royalty calculation, it conjures up what royalty rate the parties hypothetically would have agreed to if they sat across the bargaining table on the day infringement began and had instead entered into a license agreement.²⁷² In other words, if the parties had negotiated a license agreement on the day infringement began, the royalty rate the patentee would have charged the infringer for use of the invention is the same rate calculation that the court would use to assess the amount of damages the infringer owes the patentee.

The actions of the parties in negotiating a royalty rate for a license or a settlement agreement has the same legal effect, as the Supreme

²⁶⁹ 35 U.S.C. § 286 (2000); *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1577 (Fed. Cir. 1989) (“The [damages] award may be split between lost profits as actual damages to the extent they are proven and a reasonable royalty for the remainder”).

²⁷⁰ *See, e.g., Shapiro, supra* note 222, at 392 (“Virtually every patent license can be viewed as a settlement of a patent dispute: the royalty rate presumably reflects the two parties’ strengths or weaknesses in patent litigation in conjunction with the licensee’s ability to invent around the patent”).

²⁷¹ *Kesan & Ball, supra* note 220, at 254 (“Obviously, an out-of-court negotiation of a licensing agreement is similar to a negotiation of a settlement agreement once the case has been filed”); *see also Shapiro, supra* note 222, at 392 (“I do not distinguish between settlements that take place after patent litigation commences and those that take place before the filing of a patent lawsuit. Both types of settlements take place in the shadow of an ultimate court ruling on patent validity and/or infringement”).

²⁷² *Hanson v. Alpine Valley Ski Area*, 718 F.2d 1075, 1078 (Fed. Cir. 1983) (“Hypothetical negotiations should be the result of supposed meeting between the patentee and the infringer at the time infringement began”); *accord Unisplay S.a. v. Am. Elec. Sign Co., Inc.*, 69 F.3d 512, 518 (Fed. Cir. 1995) (“The key element in setting a reasonable royalty is the need to return to the date when the infringement began”).

Court's *De Forest* case supports.²⁷³ As a commentator put it, "royalties simply force the patentee to issue a retroactive license."²⁷⁴

Recognizing that similar tactics, processes, and legal outcomes accompany license agreement and settlement agreement negotiations led one firm to advertise their skills in "Adversarial Patent Licensing Negotiations," concluding that "adversarial patent licensing negotiations had many of the same qualities as settlement of pending litigation."²⁷⁵

Because a settlement agreement and a license agreement are largely based on the same royalty rate calculations and result in the same legal effect, a settlement agreement should be considered a license.

IV. EFFECTS OF THE SEVENTH CIRCUIT'S RULING

Legal issues surrounding intellectual property continue to increase in importance and national attention,²⁷⁶ especially as intellectual property becomes an increasingly larger portion of a company's assets, and by extension a nation's economy.²⁷⁷ For example, some commentators note patent law's newfound stature, due to the Supreme Court's recent zeal to grant writs of certiorari in patent cases decided at the Court of Appeals for the Federal Circuit.²⁷⁸ In 2006 alone, the

²⁷³ See, e.g., *De Forest Radio Tel. Co. v. United States*, 273 U.S. 236, 241-42 (1927) (release and license have the same legal effect).

²⁷⁴ Mohamed Yusuf M. Mohamed, Note, *Unjust Enrichment for Patent Infringement: A Novel Idea*, 4 J. INTELL. PROP. L. 123, 127 (1997).

²⁷⁵ See "Adversarial Patent Licensing Negotiations" found at <http://www.mofo.com/practice/practice/intellectualproperty/adversarial/overview.html>. (last visited April 16, 2007).

²⁷⁶ Jess Bravin, *Battleground Shifts to High Court*, WALL ST. J., Nov. 28, 2006, at A1.

²⁷⁷ A. Tracy Gomes and Thomas George, *Patent Value Continues to Soar in 2005*, INTELLECTUAL ASSET MANAGEMENT, February/March 2006, at 34.

²⁷⁸ Harold C. Wegner, *Top Ten Supreme Court Patent Cases*, Mar. 9, 2006, p. 3-4; available at <http://patentlaw.typepad.com/patent/SupremeCourtMARCH9.pdf> (last visited Apr. 16, 2007).

high court has granted certiorari in six patent cases, “more cases in a single year than any [year] since the 1960s.”²⁷⁹

Compare that number to the period just after the mid twentieth century: “[During] the next three decades, the Court averaged barely one patent decision per year, or less than one-third its average from the first half of the [twentieth] century.”²⁸⁰ Consider the high court’s patent caseload even more recently. Since the 1982 inception of the Court of Appeals for the Federal Circuit, during “the twelve terms between 1983 and 1994 (inclusive), the Court heard five patent cases.”²⁸¹ No wonder a commentator declared in 2001 “[t]he Supreme Court has rendered itself well nigh invisible in modern substantive patent law.”²⁸² The Supreme Court has reasserted its influence in patent law, given the recent uptick in patent cases heard by the Court, as evidenced in the previous five terms²⁸³ and the current term.²⁸⁴

²⁷⁹ Brian Prince, *U.S. Supreme Court Ponders Patent Rules*, eWeek, Nov. 28, 2006, available at <http://www.eweek.com/article2/0,1895,2065019,00.asp>, (last visited Apr. 16, 2007).

²⁸⁰ John R. Duffy, *The Festo Decision and the Return of the Supreme Court to the Bar of Patents*, 2002 SUP. CT. REV. 273, 275. For a more detailed discussion of the frequency with which the Supreme Court heard patent cases over the past two centuries, see *id.* at 285-301.

²⁸¹ *Id.* at 297.

²⁸² Mark D. Janis, *Patent Law in the Age of the Invisible Supreme Court*, 2001 U. ILL. L. REV. 387, 387 (2001).

²⁸³ Three cases during the 2001-2002 term: *J.E.M. Ag Supply v. Pioneer Hi-Bred Int’l*, 534 U.S. 124 (2001), *Holmes Group Inc. v. Vornado Air Circulation Sys.*, 535 U.S. 826 (2002), and *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002); no cases during the 2002-2003 and 2003-2004 terms; one case during the 2004-2005 term: *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193 (2005); four cases during the 2005-2006 term: *Unitherm Food Sys. v. Swift-Eckrich, Inc.*, 546 U.S. 394 (2006), *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28 (2006), *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 126 S. Ct. 2921 (2006), *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006).

²⁸⁴ Three cases during the 2006-2007 term: *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007), *KSR Int’l Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007), and *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746 (2007).

Given this backdrop, licensing of patented technology will likewise increase in importance,²⁸⁵ especially because of the Court's recent decision in *eBay v. MercExchange*,²⁸⁶ where the Court eliminated the usual rule that a finding of patent infringement entitles the patentee to a permanent injunction.²⁸⁷ Because a court will no longer grant a permanent injunction to a patentee as a matter of course after proving infringement, the parties may be more inclined to enter licensing agreements for the technology covered by the disputed patents.²⁸⁸ Or, perhaps more worrisome to unwilling patent holders, the parties could even be forced to enter a license agreement as part of a court's judgment.²⁸⁹

Given the likelihood of increased emphasis placed on patent license agreements, the Seventh Circuit created a general rule that was not really well thought out. For example, under the new rule, a patentee could undermine the purpose of a MFL clause by entering a

²⁸⁵ A. Tracy Gomes and Thomas George, *Patent Value Continues to Soar in 2005*, INTELLECTUAL ASSET MANAGEMENT, February/March 2006, at 34-35 (noting in 2005 \$300-\$500 million in patent litigation settlements, a \$1.35 billion verdict, and a \$525 future royalty payment buyout: "With patent applications up, patent awards/settlements up and more individuals, assertion companies and corporations asserting their IP rights, it is hard to imagine the future being anything other than more of the same). Compare those amounts with the recent record setting \$1.52 billion verdict in the *Lucent v. Microsoft* cases discussed in Saul Hansell, *MP3 Patents in Upheaval After Verdict*, N.Y. TIMES, Feb. 23, 2007, at C1.

²⁸⁶ *eBay Inc. v. MercExchange*, L.L.C., 126 S. Ct. 1837 (2006)

²⁸⁷ *Id.* at 1841.

²⁸⁸ Patently-O Patent Law Blog, http://www.patentlyo.com/patent/2006/05/supreme_court_v.html, (last visited Apr. 16, 2007) ("Because the industry competitor has a higher likelihood of obtaining an injunction, it should be willing to pay more for the patent. Interestingly, this valuation gap may spur more licenses and patent transfers"); *but see* Yixin H. Tang, Note, *The Future of Patent Development After eBay v. MercExchange*, 20 HARV. J.L. & TECH. 235, 250 (2006) ("[Large] corporations now have even less financial incentive to license from non-practicing patent owners").

²⁸⁹ This is commonly termed a compulsory license. In the post-eBay world where permanent injunctions are no longer a matter of course after a finding of patent infringement, a district court has already granted a compulsory license: *Finisar Corp. v. DIRECTV Group, Inc.*, No. 1:05-CV-264, 2006 U.S. Dist. LEXIS 76380, at *4 (E.D. Tex. July 7, 2006).

settlement agreement at a lower royalty rate with the MFL licensee's competitor during the course of a patent infringement suit. The patentee may worry that its patent will be found invalid if litigation continues, and therefore seek to avoid this outcome by inducing the MFL licensee's competitor to accept a settlement at a lower royalty rate than the rate offered the MFL licensee. Under the Seventh Circuit's new holding, the MFL licensee has no recourse to prevent this outcome.

At a minimum, a settlement agreement should be considered a license agreement for cases implicating a "most favored licensee" status.²⁹⁰ An exception to the Seventh Circuit's general rule, at least in the case of MFL licensees, would prevent collusion between the patentee and the MFL licensee's competitor from undermining the MFL clause. The outcome of the *Waterloo* case may have been correct assuming the court correctly interpreted the terms of the contract²⁹¹ but the court should not have created a rubric that will govern other dissimilar circumstances.

What can patent practitioners do to take into account the effects of the Seventh Circuit's *Waterloo* ruling when drafting license agreements in the future? Practitioners may want to explicitly contain language in a MFL clause to not only include that a MFL licensee is entitled to a more favorably rate granted in a future license agreement, but also more favorable rates agreed to during any settlement of patent infringement disputes covering the same technology outlined in the MFL license agreement. Alternatively, practitioners may not want to

²⁹⁰ See *Willemijn Houdstermaatschappij, BV v. Standard Microsystems Corp.*, 925 F. Supp. 193, 196 (S.D.N.Y. 1996) ("To conclude [that a settlement for prior patent infringement is not a license] would allow Willemijn to eviscerate the effect of SMC's most-favored-licensee clause by, for example, 'requiring' a subsequent licensee to pay a higher royalty rate and then waiving the right to sue for all or part of that rate), *vacated*, *Willemijn Houdstermaatschappij, BV v. Standard Microsystems Corp.*, 103 F.3d 9 (2d Cir. 1997).

²⁹¹ *Waterloo Furniture Components Ltd. v. Haworth, Inc.*, 467 F. 3d 641, 645-46 (7th Cir. 2006) (The court held that the license agreement expired based on the contract's terms, meaning Haworth had no more obligations to Waterloo at the time Haworth and SoftView entered the agreement).

label the agreement a license at all, but instead a “covenant not to sue.”

CONCLUSION

The Seventh Circuit put a “most favored licensee” at a competitive disadvantage with other potential licensees. The court created a general rule that settlement agreements are not patent licenses when the patent has expired. To support the new ruling, the court reasoned from an incorrect understanding of what constitutes a patent license and its associated prospective and retrospective qualities. The Seventh Circuit should have given more deference to the Federal Circuit in patent law issues and those cases that implicate substantive patent law. The court focused instead on the label attached to an agreement and not the processes by which the agreement is reached nor its legal effects.